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FINANCIAL ADVISOR BRIEFING

Advisors Harness Behavioral Finance To Calm Clients' Money Worries

MOREY STETTNER | 7/27/2018

For some clients, their advisor doubles as a therapist. They grapple with psychological issues about money while gaining financial planning and investment management expertise.

In recent years, research in behavioral finance has given advisors a fresh set of tools to help clients wrap their minds around money. By applying the latest findings, advisors enable clients to rethink faulty assumptions, resolve family conflicts and make sound decisions tied to saving, spending and investing.

Some advisors dig into behavioral finance principles on their own. Others partner with outside experts who track the latest advances in the field.

Ian Weinberg, a certified financial planner in Woodbury, N.Y., enlists a consulting psychologist to help clients address challenges related to money and family dynamics. The planner has worked with the psychologist for about 18 years.

"He's helped our clients — many of whom are family stewards and business founders — gain a better understanding of how to break the ice in discussing family wealth and succession with their children," Weinberg said. "He's also helped us get a handle on how people digest financial news, especially in volatile periods."

When meeting new clients, Weinberg has incorporated the psychologist's input to refine his interview process. He likes to ask, "When you think about your wealth, what concerns, needs or feelings come to mind?"

"Sequencing is critical when asking questions," Weinberg said. "It's following up and asking 'Why is that so important?' and 'Is there anything even more important to you?' A lot of times, they don't reveal their embedded concerns until 30 minutes into the interview."

The 4 Rs

Behavioral finance explores the interplay of instinctive feelings and rational thought. Advisors learn how emotional and cognitive biases can affect our financial judgment and decision-making.

"We feel quickly, but it takes a while to think about what we're feeling," said Andi Kang, a certified financial planner in Costa Mesa, Calif. "Our first response is very emotional vs. the cognitive, logical response."

Armed with this knowledge, Kang understands when clients react emotionally to bad news such as a sudden market decline. She strives to prepare them for such jolting events and shift their focus to long-term results.

She also encourages clients to apply a four-step process to bypass their emotional impulses in favor of making prudent financial decisions: recognize, reflect, reframe and respond.

Recognizing your thoughts and emotions helps you gain situational awareness. Reflecting on your overriding values — the big picture that serves as your backdrop for interpreting a situation — provides perspective. Reframing allows you to view negative self-talk in a more positive yet still logical manner. Responding so that you're consistent with your values and long-term goals creates a better outcome.

"It's all part of understanding the behavioral triggers that can lead to an emotional response, like panic over a big, unexpected or alarming (financial loss)," Kang said. "We help clients prepare for and understand those risk triggers" and make smarter decisions as a result.

Pivotal Moments

Like therapists, advisors might dig into the past to unearth formative experiences that shape clients' actions and attitudes. Heightening clients' awareness of how they perceive money — and how a childhood memory leaves a searing impact — can lead to psychological breakthroughs.

Michelle Arpin Begina, a New York City-based certified financial planner, has a longtime interest in behavioral finance. She completed Kansas State University's financial therapy graduate certificate program in 2017.

"I explore the 'moneyhood' that clients grew up in," she said. "We're influenced by major turning points in our life, whether negative or positive. At these momentous occasions, we form beliefs" about money. Examples include children learning of the bankruptcy of the family business or observing how their parents negotiate the purchase or sale of their home.

Begina cites a client in her late 60s who recalls her father winning the lottery more than 50 years ago. At the time, her father assured her, "You'll never need to worry about money again." But the funds soon evaporated.

"In financial therapy, these moments are called 'flash points,' " Begina said. "They tend to leave a deep emotional impact on people."

Another element of behavioral finance involves increasing the odds that clients will follow through on sound advice. It's not enough that clients accept an advisor's recommendations; the real test is whether they remain on the right path years later.

"Adherence strategies train advisors to get clients not only to take our advice but how to make it stick," Begina said. "It's just as important to understand how we can help clients stay the course."

Begina accomplishes this by asking clients forward-looking questions such as, "Over the next 20 years, what can stand in the way and derail your retirement goals?" Once they answer, she'll ask, "If that happens, how can I support you?"